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A New Social Contract?

Trends in Financial Poverty
in Western European Countries

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Trends in Financial Poverty in Western European Countries

KAREL VAN DEN BOSCH

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Introduction¹

In many countries in Europe there has been talk of 'new poverty'. As the brief review by Room (1990), as well as Giovanna Procacci's contribution make clear, the concept of 'new poverty' is somewhat confused, and is used in rather different ways in various countries. However, one of the constant elements appears to be that it is claimed (or the impression is created) that poverty is on the increase. As causes or indicators of the supposed rise in poverty reference is often made to high and/or increasing levels of unemployment, growing numbers of people who are dependent on social assistance, and more homeless people on city streets.

However, these indicators of increasing poverty may be misleading. For example, in Belgium unemployment has increased strongly since the end of the seventies, the number of people who are dependent on social assistance has grown more than five-fold between 1976 and 1992, and the number of persons who are taken care of in centers for the homeless has risen substantially during the last ten years (Vranken and Geldof, 1993, p. 167, p. 188f). Yet, research has shown that financial poverty in Belgium has not increased between 1985 and 1992, and that it has clearly come down in the region of Flanders between 1976 and 1992 (Cantillon et al., 1993).

The reasons for these at first sight counterintuitive trends in poverty rates are diverse and complex. They are related to developments that are less visible, such as a secular improvement in pension benefits and growing labor market participation by married women. Another important reason is that throughout the reforms and cutbacks in social security during the eighties, it has been a consistent policy of the Belgian government to protect those with the lowest incomes.⁴

In any case, the Belgian example shows that there is no simple relationship between trends in unemployment levels and numbers of persons on social assistance on the one hand, and the poverty rate on the other. The impact of, e.g., growing unemployment on poverty levels may be dampened or compensated by other, less visible developments. In order to determine trends

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in financial poverty there is no alternative to looking at direct evidence, derived from micro-data on the incomes or expenditures of households or families.

The aim of this paper is to investigate trends in financial poverty in a number of European countries. The questions that will be addressed are: Have overall levels of poverty increased, decreased or remained stable? Has the incidence of poverty shifted from certain demographic groups to others? How has the social income transfer system coped in its task of protecting people from poverty? The paper is inevitably somewhat superficial; it is not possible to analyse the underlying causes of developments, or to discuss changes in social policy in the several countries. The paper merely sets the stage for possible further research.

Answers to the questions asked will be sought by analyzing the Luxembourg Income Study (LIS) database. LIS brings together data from a large number of household income surveys, which can be analyzed through remote access. (cf. Smeeding et al., 1990). In addition, I will use published results, in particular from De Vos and Zaidi (1993a-c, 1994a-d), and from some national studies.

In concentrating upon financial poverty, I do not want to imply that it exhausts the concept of social exclusion. Financial poverty is only one aspect of the much wider concept of social exclusion. Nevertheless, in highly monetarized, free-market societies such as those of Western Europe, having sufficient income is an important condition for social participation. The consequences of not having enough money are diverse and often subtle, but they make themselves felt throughout life. They include less contacts with friends and relatives because of lack of transport, health problems due to food of lesser quality or substandard housing, and also the constant mental stress of not being able to make ends meet.

Also, ensuring a minimum level of income for everyone is certainly not the only goal of social policy in general, or even of social security income transfers in particular. But it is of sufficient importance to merit investigation of its own.

Another important characteristic of the approach taken in this paper is that the focus is on trends in poverty rates within individual countries, and not on the level of the European Union as a whole. Because of the very different social and economic conditions pertaining in the countries of the EU, estimates of Union-wide poverty rates have little meaning and relevance, in my opinion. But the main reason for the approach taken here is that public policy concerning

poverty and income distribution is still overwhelmingly a national responsibility. Although developments in the world economy, as well as continuing European integration have forced a certain degree of convergence on national policies, it is still surely true that the social security systems of Western European countries differ greatly, as regards basic principles as well as on the level of the rules that govern actual transfers. Also, while a number of parallel tendencies can perhaps be identified (e.g. a greater reliance on means-tested benefits), the policies followed by the various governments during the last two decades have differed in important ways (cf. Mishra, 1990, p. 96, who concludes that 'significant policy differences exist' between different countries, see also Mangen, 1991). In the context of this paper, it is impossible to do justice to this subject, which merits a (large) study in its own right. To give only one example: while the level of the minimum income guarantee has been reduced in Britain and The Netherlands during the eighties, France introduced a minimum income scheme in 1988, and in Belgium the real value of minimum social assistance benefits was increased during a time when other benefits and wages were frozen. Therefore, the nation-state seems the appropriate level on which to study trends in financial poverty.

2. Previous studies

Previous research on the evolution of poverty in Europe is relatively scarce, and, unfortunately, inconclusive and even somewhat confusing in its results. The first such study was by O'Higgins and Jenkins (1990). They defined poverty as having an equivalent income below 50 percent of the country's average. They concluded that the number of poor in the twelve EC-nations of that time rose slightly from about 39 million around 1975 to about 40 million around 1980, but then jumped to around 44 million in 1985. Between 1980 and 1985, poverty appeared to have risen in five countries: Denmark, Germany, Ireland, Italy and the UK. In the other seven countries the poverty rate seemed to have remained stable.

The Eurostat (1990) study, 'Poverty in Figures', however, reports that, using relative country-specific poverty lines, the total number of poor in the same group of countries (excepting Luxembourg) increased only marginally from 49 million in 1985 to 50 million in 1985 (p. 63). The poverty rates had risen in Ireland, Italy, the Netherlands and the UK, but had dropped in Belgium, Greece,

Spain and France, while remaining at about the same level in Denmark, Germany and Portugal.

The main reason for these apparent discrepancies seems to be that in order to obtain their 1985 figure, O'Higgins and Jenkins (1990) relied for six countries on extrapolations from earlier years, made on the basis of reports by national consultants. Several of these extrapolations resulted in stable poverty rates for countries where Eurostat (1990) reports a decrease. The Eurostat (1990) study itself uses extrapolations for four countries. Furthermore, in some countries different databases were used (e.g. Belgium and The Netherlands), or different methods: while Eurostat (1990) used expenditure as the measure of economic resources for all countries, O'Higgins and Jenkins (1990) used income, wherever possible. However, even where there are no apparent differences in data or methods used, results from different studies often diverge substantially from each other. One reason for this may be that the figures published by O'Higgins and Jenkins (1990) as well as those reported by Eurostat (1990) were not directly derived from micro-data. O'Higgins and Jenkins relied on national consultants, who used a variety of methods, but in many cases seem to have worked on the basis of published tables. All Eurostat (1990) results were derived from an analysis of secondary data provided by National Statistical Institutes. In view of these problems, only results derived directly from micro-data will be presented in this study.

3. Methods

Poverty measurement involves choices on a number of more or less technical issues. Here I do not want to attempt a full discussion of these matters. (The interested reader is referred to Ruggles, 1990 or Gustafsson, 1995, for an extensive discussion). I will merely indicate the choices made, and the main reasons for making them.

In this study, disposable household income will be used as the preferred measure of economic resources to assess poverty status. This choice may seem fairly obvious as income is a good index of a household's command over market goods and services. Nevertheless, Eurostat (1990) and a number of other studies, including De Vos and Zaidi (1993a-c, 1994a-d), whose results will be extensively used below, have opted for household expenditure. The main reason is a practical one: in the Household Budget Surveys which these studies use,

income does not seem to be measured well and is seriously underreported in number of countries (Hagenaars et al., 1992, p. 5).

Poverty is assumed to be a household phenomenon, i.e. the assumption is that the members of a household share resources in such a way that either all, or none are poor. While there is clear evidence of unequal divisions of power and income within some households and families (Jenkins, 1991), it is extremely difficult to measure within-household distributions. However, even though the household is the preferred level of poverty analysis, not all data sources allow this. In a number of surveys, families or tax-units are the unit of measurement. Moreover, definitions of what constitutes a family differ. E.g., in Sweden persons of 18 years or older and living with their parents are regarded as separate families. In these cases, there is no choice but to use the unit imposed by the database. For the determination of trends in poverty it is obviously important that the unit of measurement remains the same over the years. This will usually be the case when the same kind of survey is used for all years in any single country. Even though poverty status assessment is carried out on the level of the household or the family, the number of poor will be counted in terms of persons.

A range of methods to identify poverty lines can be found in the literature. (See Callan and Nolan, 1991, and Van den Bosch, 1993a, for reviews.) However, in the present context, only one approach is feasible: the relative one, where the poverty line is set at a certain percentage of mean or median equivalent income. The particular percentage is largely arbitrary, but 50% (of the mean) appears to be a popular one, and will also be used here.

The choice of an equivalence scale is, in effect, almost equally arbitrary. As shown by the reviews of Whiteford (1985) and Buhmann et al. (1988), *inter alia*, the range of scales used or presented in the literature is very large. In O'Higgins and Jenkins (1990) and Eurostat (1990), the scale recommended by the OECD (1982) has been used, which assigns a factor of 1.0 to the first adult in a household, 0.7 to each additional adult, and 0.5 to each child. (The equivalence scale value for the household is found by summing the individual factors. The equivalent income of a household is calculated by dividing disposable income by the equivalence scale value). Compared with almost all other equivalence scales, the OECD-scale is very steep (Buhmann et al., 1988), i.e. the assumed needs of households increase very strongly with the number of household members. Several authors have questioned its appropriateness for opulent

western countries (Haveman, 1990, Deleeck et al., 1992, Van den Bosch, 1993b). Consequently, following Hagenaars et al. (1992) and De Vos and Zaidi (1994), I will use a 'modified' OECD-scale with factors 1.0 for the first adult, 0.5 for each additional adult, and 0.3 for each person aged less than 18. This scale is situated at about the middle between flat and steep scales.

The use of country-specific poverty lines implies that poverty is regarded as a country-specific phenomenon. This choice seems defensible in a study where the focus is on trends in poverty rates within individual countries. If the aim was to compare poverty rates across countries, or to determine the evolution of poverty in the European Union as a whole, a good argument could be made that a Union-wide poverty line should be used, as was done in Eurostat (1990). In the present study, such a Union-wide approach would make little sense: it produces country-wide poverty rates of up to 70 percent (in Portugal, Eurostat, 1990), which are of no relevance within a national context.

A consequence of using relative poverty lines is that a nationwide improvement in incomes which leaves the relative positions of households unchanged, has no effect on the poverty rate. As Gustafsson (1995, p. 370) writes, such a procedure, which introduces a 'moving target' is not without its problems. For this reason, I will also present poverty rates based on 'absolute' poverty lines, which are kept at the same real level across years.

A practical problem with the use of the number of people below the poverty line (i.e. the so-called head-count) as a measure of the extent of poverty is that it can be rather sensitive to the precise level of the poverty line. In addition to the results from the 50 percent threshold, I will also present poverty rates derived from poverty lines set at 40 percent and 60 percent of average equivalent income. Furthermore, I will use the poverty gap, which is less sensitive to the level of the poverty line, as a measure of the extent of poverty. The poverty gap is defined as the aggregate income shortfall of all poor households with respect to the poverty line.

4. Comparability of the LIS data sets

In order to be able to give a reliable picture of trends in poverty, great care is needed to ensure comparability across years. It is not sufficient just to use the

same poverty line. It is also necessary to make sure that the surveys from which the data are taken are comparable.

There are eleven Western European countries for which the LIS database contains data for two or more years. They are listed in table 6.A.1 in appendix. Three conditions were looked at in order to evaluate the comparability of the surveys across years within each country. In the first place, the surveys should be all of the same kind (e.g., all budget surveys, or all tax surveys). Secondly, the unit of measurement should remain the same across years. Thirdly, the trend in average household income per head of the population as calculated from LIS data should be roughly equal to the same trend as calculated from national account statistics. The national account statistics, as published by the OECD, do not provide a measure that coincides perfectly with household disposable income, and that is available for all countries. It was judged that the sum of Final Consumption Expenditure and Net Saving probably comes closest. The results of this comparison are presented in table A1 in appendix.

As a result of this comparison, the Austrian and the Italian datasets in LIS are judged not to be comparable across years, and no results for these countries will be presented below. Germany is represented in LIS by five datasets, derived from three kinds of surveys, which do not seem to be comparable to each other. Since LIS staff recommended not to use the 1989 dataset, only results from the 1978 and 1983 Income and Consumer Survey datasets will be shown here. The Dutch 1991 survey is probably not comparable to the other Dutch surveys. In the following tables, this will be indicated by a space between the Netherlands 1987 and 1991 rows. The same remark applies to the UK 1974 dataset. Within the other countries, all datasets shown in table 6.A.1 are regarded as comparable.

De Vos and Zaidi (1993b, 1994c-d) estimated trends in poverty, using Household Budget Survey data, for three countries which are not (yet) represented in LIS, viz. Greece, Portugal and Spain. These will be presented, where possible, along with the other results. Because income is underreported in several of the Household Budget Surveys, De Vos and Zaidi (1994a, pp. 2-8) prefer expenditure to income as the measure of economic resources to assess poverty status. A comparison of the trends in average expenditure per capita according to the surveys with those according to national account statistics shows that there are no apparent problems of comparability across years, except possibly for Spain.

5. Trends in the overall extent of poverty, and its distribution across demographic groups

In this section, I will discuss trends in the overall poverty rates and poverty gaps in the several countries (table 6.1). I will look at relative as well as 'absolute' poverty. In the first case, the poverty line is set at the same percentage of average equivalent income in each year. The trend in 'absolute' poverty is measured by translating the relative poverty line in a reference year to the other years, using the consumer price index, thus keeping the poverty line constant in terms of purchasing power. Poverty rates are given in terms of individuals. In addition to poverty rates, the aggregate poverty gap as a percentage of aggregate disposable income (as estimated from survey data) is shown, where available.

At the same time, I will discuss the extent of poverty for three demographic groups: children (i.e. persons below 18 years), elderly persons (i.e. adults aged 65 or over) and non-elderly adults, as shown in table 6.2. Unfortunately, in some LIS datasets it was not possible to distinguish between elderly and non-elderly persons on the individual level. In these cases, the elderly are defined as individuals living in a household where the head is 65 or over. In order to retain comparability of results across years, this definition was also used for all other surveys for the same country. This change of the definition of elderly persons only had a minor effect on measured poverty rates and poverty gaps.

In *Belgium*, the extent of relative poverty appears to have remained stable - at a comparatively low level - in the period 1985 to 1992 (cf. Cantillon et al. 1993). Furthermore no important changes in the distribution of poverty across broad demographic groups appear to have occurred. When the poverty line is kept at its 1985 level in terms of purchasing power, the extent of poverty falls by about one third.

In *Denmark*, important changes appear to have happened. Poverty rates fell considerably at the 50% and 60% thresholds, but much less at the 40% line. It appears that poverty has fallen in particular (by about three-quarters) for the elderly. Further analysis has shown that this is a result of a large number of elderly persons being just below the poverty line in 1987, and being just above it in 1992. Since, in real terms, average equivalent income hardly changed between 1987 and 1992, the 'absolute' poverty rates behave in much the same way as the relative ones.

In *Finland*, relative poverty has increased somewhat between 1987 and 1991. Poverty has gone up particularly among the elderly. This finding contrasts with that of Ritakallio (1994) who reports that relative poverty has gone down in Finland in the period 1985 to 1990. Finland experienced a sharp economic downturn in 1991, which may explain the difference. If my findings are correct, they would constitute a break in the trend of decreasing relative poverty in Finland between 1966 and 1985 (Gustafsson and Uusitalo, 1990). When the poverty line is kept at its 1987 level, the extent of poverty diminishes in Finland in the period studied.

In *France*, the results from tax surveys indicate a decline in relative poverty between 1979 and 1984. The decrease is even larger when the poverty line is kept at the same real level. The decline in the overall poverty rate is mainly due to a large reduction in the incidence of poverty among the elderly; among non-elderly persons the poverty rate remains stable. For the subsequent period 1984/85 to 1989, De Vos and Zaidi (1994b) report an increase in relative poverty rates. Poverty has increased in particular among children, and also among non-elderly adults. When a constant poverty line is used, overall poverty rates remain virtually stable. For reasons given above, the LIS results are not comparable with those of De Vos and Zaidi.

For *Germany* during the period 1978 to 1983, the LIS datasets produce stable relative poverty rates. The poverty rate has increased somewhat among children, and fallen for other persons, though the changes are modest. When the poverty line is kept at the same real value, German poverty rates would appear to have fallen during the period 1978 to 1983. By contrast, Becker (1995), using data from the same surveys but a slightly different income concept, reports a clear increase in the number of persons below half of average equivalent income: from 6.4% to 8.7%. After 1983, however, the number of persons below half of average equivalent income appears to have stabilised.

For *Greece*, De Vos and Zaidi (1994c) report that relative poverty has increased slightly between 1982 and 1988. This rise is located solely among the elderly. 'Absolute' poverty has gone up a little more.

In *Ireland*, the number of persons in relative poverty has increased considerably, both in the period 1973 to 1980, as well as between 1980 and 1987 (Callan et al., 1989). Table 6.2 reveals that there has been a dramatic change in the

demographic composition of the poor: poverty among the elderly has fallen by more than two-thirds, while poverty among children has almost doubled.

The findings for The *Netherlands* are somewhat confusing. Between 1983 and 1987, poverty appears to have declined somewhat. (This statement is equally true for relative and 'absolute' poverty). This result is mainly due to the apparent virtual eradication of poverty among the elderly in 1987 - consider the poverty gap in particular. There is no evident reason why such a large decline should have occurred, and it may well be a data artefact. The 1991 survey may well be more representative for the population than the 1983 and 1987 surveys, but it is almost certainly not comparable with the latter. The SCP (1994, p. 205) reports that the number of poor households doubled between 1979 and 1983, from 4 percent to 8 percent. After 1983, it stabilised to 7 percent, as measured in 1987 and 1991. The SCP uses a political poverty line, which is equal to the level of the minimum guaranteed income in social assistance. In the period of 1983 to 1991, this level has declined in real terms in some years, and it certainly has fallen behind the so-called modal income.

In *Norway*, the extent of relative poverty appears to have been fairly stable in the period 1979 to 1991. At the 50 percent line, there is a peculiar jump in the poverty rate in 1986. As this jump is not replicated at the other lines, nor is reflected in the poverty gaps, it is probably due to a data quirk. The same quirk (if it is that) appears in the poverty rate for the elderly in 1986; the trend in the poverty gap among the elderly is always downward. No changes in relative poverty of any importance are measured for children and non-elderly adults. Since Norwegians appear to have enjoyed a considerable general improvement in living standards, 'absolute' poverty has been more than halved in the period from 1979 to 1991.

For *Portugal*, De Vos and Zaidi (1994d) report a modest decline in relative poverty rates between 1980 and 1989. The decline appears to be greatest among children. When the poverty line is kept at a constant real value, poverty rates have come down by more than a third. De Vos and Zaidi's (1993b) results also indicate a small decline in relative as well as 'absolute' poverty in *Spain* between 1980 and 1988. Table 6.2 shows that poverty seems to have come down considerably among the elderly, but to have remained stable among the non-elderly. The 1988 survey is, however, probably not quite comparable to the 1980 one.

In *Sweden*, the general picture that emerges is that the extent of relative poverty was more or less stable between 1975 and 1981, then increased in the period up to 1987 (though from a rather low level) and stabilized again between 1987 and 1991. The small decline in measured poverty in the first period is due to an apparently virtual elimination of poverty among the elderly in 1981, and it is unclear whether this is realistic. Over the period 1975 - 1991 as a whole, it seems nevertheless that relative poverty has declined among the elderly, while it has increased for non-elderly adults, and perhaps also for children. When the poverty line is kept at the same real value across years, there is an almost continual decrease in poverty rates, though the pace of decline was somewhat slower between 1987 and 1991 than in the other periods. Gustafsson and Uusitalo (1990, p. 258), using a 'political administrative' poverty line, which is based on guidelines for the level of social assistance, report a somewhat different trend in poverty rates in Sweden between 1967 and 1985. 'Poverty declined very rapidly until 1975, and continued to decline although with a somewhat slower pace until 1980, when it was at its lowest level. [...] In the beginning of the 1980s, poverty rates increased, except for 1985, when there was a decrease.'

For the *UK*, I present figures about trends in poverty from three sources: LIS, De Vos and Zaidi (1993c) and Goodman and Webb (1994). All of them use Family Expenditure Survey data. Fortunately, the three sources are in broad agreement with each other. During the seventies, there was a modest decline in poverty. In the early eighties, there was an increase in poverty rates, which accelerated in the second half of the eighties. As a result, in 1991 the poverty rate was more than three times what it was in 1978. An important reason for this steep rise in relative poverty was that those at the very top experienced 'meteoric rises' in income, while the incomes of those at the very bottom were rising only slowly (Goodman and Webb, 1994, p. 25). When the poverty line is kept at the same level in terms of purchasing power, we indeed observe downward, rather than upward, trends in poverty rates. However, by 1991 even the absolute poverty rate seems to have increased; in that year 20 percent more persons were below half of 1979 average income than in 1979 itself (Hills, 1995, p. 32). The trends in relative poverty have not been the same for all demographic groups. During the seventies, and even in the beginning of the eighties, there was a strong decline in the poverty rate among the elderly (in 1982 it was only a third of what it was in 1973), while poverty remained stable, or even rose a little, among children and non-elderly adults. In 1988, however, the poverty rate for the elderly rose quickly back to its 1973 level, and it has

continued to rise after that year. At the same time, poverty among the non-elderly has nearly tripled.

Overall, then, there are two countries where relative poverty rates have sharply increased: Ireland 1973 - 1987, and the UK, 1982 - 1991. In a number of countries, modest increases in poverty were measured: Finland 1987 - 1991, France 1984/85 - 1989 (after a decline in poverty between 1979 and 1984), Greece 1982 - 1988 and Sweden 1981 - 1992. In Denmark 1987 - 1992, Portugal 1980 - 1989 and perhaps in Spain, 1986 - 1988, poverty appears to have declined, though not by very much. Stable poverty rates were found for Belgium. Results for Germany and The Netherlands were inconclusive.

When an 'absolute' approach is taken, where the poverty line is set at a constant level in terms of purchasing power, the results are rather different. Poverty rates increase in only one country, Greece 1982 - 1988. Sharp falls in 'absolute' poverty are found in a number of countries: Belgium 1985 - 1992, France 1979 - 1984, Norway 1979 - 1986, Portugal 1980 - 1989 and Sweden 1975 - 1992.

The trends were not the same for all demographic groups. In some countries, relative poverty among the elderly fell sharply. This was the case in Denmark 1987 - 1992, France 1979 - 1984 and Ireland 1973 - 1987. Smaller declines in poverty were measured in Germany 1978 - 1983, Norway 1979 - 1991, Sweden 1975 - 1992 and perhaps in Spain 1980 - 1988. Poverty among the elderly also fell in the UK during the seventies and the early eighties, but these gains were reversed in the last half of the eighties and the early nineties. Apart from the UK, increases in poverty among the elderly were measured only in Greece 1982 - 1988 and Finland 1987 - 1991.

By contrast, relative poverty among children appears to have declined in only one country, viz. Portugal 1980 - 1989. Increases in the proportion of children in poverty were found in several countries: France 1979 - 1989, Ireland 1973 - 1987, the UK 1979 - 1991, and perhaps in Germany 1978 - 1988. The upturn in the poverty rate for children was particularly sharp in the UK. In the other countries, the extent of relative poverty among children appeared to be stable, or the results were inconclusive.

For non-elderly adults, there is only one country where there is a clear and strong trend in the poverty rate: the UK, where it has steadily increased since the end of the seventies. Smaller rises are measured in France 1984/85 - 1989,

Ireland 1973 - 1987 and Sweden 1975 - 1992. In the other countries, only insignificant changes were measured.

6. The impact of social security transfers on the extent of poverty.

In this section, I will look at the impact of social security transfers (including social assistance) on income poverty. Specifically, I will consider whether social security transfers have succeeded in dampening possible poverty enhancing effects of increasing unemployment and other economic and social developments, or whether, conversely, rising poverty rates are the result of a reduction in the effectiveness of social security transfers as regards minimum income protection. For this analysis, only results from LIS are available.

The impact of social security transfers on the extent of poverty is measured by comparing poverty rates and poverty gaps before and after transfers are granted. That is, every household's poverty status is evaluated on the basis of disposable income (i.e., after transfers) and on the basis of disposable income minus income transfers (i.e., before transfers). This method has earlier been applied by Deleeck et al. (1992) and Hausman (1993). It differs from the most common procedure to measure the impact of income transfers on income inequality and poverty, where the distribution of gross income (market income plus transfers before taxes and social security contributions are paid) is compared with the distribution of net disposable income (e.g., Mitchell, 1991). One reason for not adopting the latter method is that gross income is an administrative concept rather than an economic one. The level of gross income depends to a considerable degree on the division of social security contributions between employees and employers. Employees' contributions are part of gross income, while those of employers are not, but a good argument can be made that in an economic sense both are in fact borne by employees. Consequently, cross-country comparisons of the redistributive impact of social security transfers where gross income is used as the baseline may be quite misleading. The same can be true for comparisons across time within a single country if contribution rules have changed. A practical advantage of the method used here is that it can also be applied when the variable gross income is not available, as is the case in a number of LIS surveys. A possible disadvantage of this method is that it may overestimate the impact of transfers on poverty when the latter are measured gross of taxes and social security contributions. An implication of the approach is, obviously, that

we look only at the impact of social security benefits, not at that of social security contributions or taxes.

The results are shown in table 6.3. Overall, the conclusion must be that for the countries and the periods studied, there is no evidence that the impact of social security on the extent of poverty has diminished. On the contrary, in all countries, except Finland, the trend in the proportion of the pre-transfer poverty gap that is filled by social security transfers is upward, rather than downward. In some countries, viz. Denmark 1987 - 1992, France 1979 - 1984 and the UK 1974 - 1986, large reductions in the poverty rate among the elderly can be attributed to an improved performance by social transfers. (The reverse trend occurs in Finland.) In a number of countries (Denmark 1987 - 1992, France 1979 - 1984, Norway 1979 - 1991, Sweden 1975 - 1992 and even the UK 1974 - 1986) increases in pre-transfer poverty among children and/or non-elderly adults have been compensated or considerably dampened by social security transfers. There is no country where the proportional reduction in the poverty gap among children due to social transfers has become smaller, and only one (Finland) where the impact of social transfers on the poverty gap among non-elderly adults has declined. Social security transfers appear to be as important in fighting or preventing poverty as ever. In this context, it is worth pointing out that the figures also show that without social security transfers, the extent of poverty, even among the non-elderly, would be much larger than it actually is.

7. Conclusion

In this paper I have investigated trends in financial poverty and the impact of social security transfers in a number of European countries. Data were used from the Luxembourg Income Study (LIS) database, as well as a number of published results, in particular from De Vos and Zaidi (1993a-c, 1994a-d), and from some national studies. A relative poverty definition has been used, where persons in households with incomes below half of average equivalent income are regarded as poor, although I have also looked at trends in 'absolute' poverty. The main findings are as follows.

Sharply rising trends in poverty were found in two countries (Ireland and the UK), while modest increases in poverty were measured in a number of other countries, including Germany, France and Sweden. In several countries, poverty

has remained stable, or has declined. When an 'absolute' approach is taken, where the poverty line is set at a constant level in terms of purchasing power, poverty rates increase in only one country (Greece), while sharp falls in 'absolute' poverty are found in several countries. This conclusion is in accord with a recent OECD study, which found that trends in income inequality differ strongly across countries. Some countries (notably the UK) experienced a large increase in income inequality in the 1980s, while others showed only a modest rise or little change (Atkinson et al., 1995, p. 80).

There is evidence of a shift of poverty from the elderly to families with children. In several countries, poverty among the elderly fell considerably, while a decrease in poverty among children was found in only one country (Portugal). By contrast, in some countries, poverty among children rose sharply, in particular in the UK.

The study found no evidence that the impact of social security transfers on the extent of poverty has diminished. In some countries large reductions in the poverty rate among the elderly can be attributed to an improved performance by social transfers. Also, in several countries increases in pre-transfer poverty among children and/or non-elderly adults have been compensated or considerably dampened by social security transfers. Social security transfers appear to be as important in fighting or preventing poverty as ever. Thus, in spite of a number of problematic economic, social and demographic developments, the 'old social contract' still appears to stand its ground in terms of income protection in most Western European countries. Whether it will continue to be able to do so in the future, in the face of growing polarization and exclusion on the labor market, is an open question (cf. Rosanvallon, 1995).

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[Table 6.A.1]
Appendix

Table 6.A.1: Comparability of the LIS-surveys across years within countries

Country and year	Name of LIS Survey	Unit of Measurement	Trend in income per capita		Price Index
			Nat. accounts	LIS	
Austria 87	Austrian Microcensus	Family Household	100,0	100,0	100,0
Austria 91	Austrian Microcensus		124,3	89,1	111,5
Belgium 85	Panel Survey of the Centre for Social Policy	Household Household Household	100,0	100,0	100,0
Belgium 88	Panel Survey of the Centre for Social Policy		114,6	109,5	104,1
Belgium 92	Panel Survey of the Centre for Social Policy		152,6	133,2	117,3
Denmark 87	Income Tax Survey	Household Household	100,0	100,0	100,0
Denmark 92	Income Tax Survey		129,1	116,1	118,1
Finland 87	Income Distribution Survey	Household Household	100,0	100,0	100,0
Finland 91	Income Distribution Survey		131,8	142,8	124,0
France 79	Survey of Individual Income Tax Returns	Tax Unit Tax Unit	58,8	54,8	59,0
France 84	Survey of Individual Income Tax Returns		100,0	100,0	100,0
Germany 78	Income and Consumer Survey	Household Household Household Household Household	73,1	91,9	76,9
Germany 81	Transfer Income Survey		89,7	91,7	89,8
Germany 83	Income and Consumer Survey		94,8	120,0	97,6
Germany 84	German Socio-Economic Panel Study		100,0	100,0	100,0
Germany 89	German Socio-Economic Panel Study		121,5	113,6	106,5
Italy 86	Bank of Italy Income Survey	Household Econ. Family	100,0	100,0	100,0
Italy 91	Bank of Italy Income Survey		162,0	218,7	132,3

(Continuation, table 6.A.1

Country and year	Name of LIS Survey	Unit of Measurement	Trend in income per capita		Price Index
			Nat. accounts	LIS	
Netherlands 83	Additional Enquiry on the Use of Public Services	Household	-	100.0	100.0
Netherlands 87	Additional Enquiry on the Use of Public Services	Household	100.0	100.0	100.0
Netherlands 91	Socio-Economic Panel of the Central Bureau of Statistics	Household	116.9	147.2	107.9
Norway 79	Survey of Norwegian Tax Files	Tax Unit	48.9	41.0	54.5
Norway 86	Income and Property Distribution Survey	Household	100.0	100.0	100.0
Norway 91	Income and Property Distribution Survey	Household	133.5	139.3	130.6
Sweden 75	Income Distribution Survey	Unknown	32.3	32.8	38.0
Sweden 81	Income Distribution Survey	Tax Unit	62.0	63.4	76.2
Sweden 87	Income Distribution Survey	Tax Unit	100.0	100.0	100.0
Sweden 92	Income Distribution Survey	Tax Unit	154.8	167.3	133.1
UK 74	Family Expenditure Survey	Unknown	22.7	49.5	28.0
UK 79	Family Expenditure Survey	Family	52.4	53.2	57.8
UK 86	Family Expenditure Survey	Family	100.0	100.0	100.0

Notes: Nat. accounts: trend in Final Consumption Expenditure plus Net Saving of Households per head of the population according to National Accounts

LIS: trend in disposable income per head of the population according to LIS survey

Price Index: Price index of private household consumption

All figures are expressed as a percentage of corresponding amount for year which is nearest 1985.

Sources: Nat. accounts: Calculated using aggregate amounts from OECD National Accounts, table 8, various editions, and population figures from UN Demographic Yearbook, various editions.

DPI (LIS): Calculated from results out of Luxembourg Income Study database

Price Index: OECD Main Economic Indicators, various editions

[Table 6.1]

Table 6.1: Trend in poverty in a number of European countries, using relative and 'absolute' poverty lines.

Country / Year	Persons below line at:			Poverty gap (1)	Index line (2)	Persons below line at:			Measure of Re-sources	Source
	40% of average income in given year	50% of average equivalent income in given year	60%			40% of average income in reference year*	50%	60%		
Belgium 85	2,2%	5,8%	13,8%	0,7%	100	2,2%	5,8%	13,8%	Income	LIS
Belgium 88	2,3%	6,2%	14,4%	0,7%	111	1,8%	5,2%	12,4%	Income	LIS
Belgium 92	2,1%	5,5%	11,8%	0,6%	118	1,6%	3,3%	8,3%	Income	LIS
Denmark 87	3,8%	8,9%	15,9%	1,5%	100	3,8%	8,9%	15,9%	Income	LIS
Denmark 92	3,3%	5,5%	12,0%	1,1%	97	3,5%	6,3%	13,5%	Income	LIS
Finland 87	2,6%	5,5%	11,6%	0,8%	100	2,6%	5,5%	11,6%	Income	LIS
Finland 91	2,8%	6,4%	12,1%	0,9%	114	1,7%	3,8%	7,5%	Income	LIS
France 79	6,6%	13,2%	23,2%	1,8%	95	7,9%	16,1%	26,9%	Income	LIS
France 84	5,7%	11,9%	22,9%	1,6%	100	5,7%	11,9%	22,9%	Income	LIS
France 84/85	6,0%	12,4%	21,1%		100	6,0%	12,4%	21,1%	Expend.	DV93a
France 89	6,9%	14,7%	25,0%		109	6,0%	12,7%	22,5%	Expend.	DV93a
Germany 78	3,7%	8,2%	15,5%	1,1%	98	2,1%	4,5%	8,7%	Income	LIS
Germany 83	3,1%	8,0%	16,2%	0,9%	100	3,1%	8,0%	16,2%	Income	LIS
Germany 88		6,4%							Income	Becker
Germany 83		8,7%							Income	Becker
Germany 88		8,9%							Income	Becker
Germany 83 (3)		8,3%							Income	Hauser
Germany 87 (3)		7,7%							Income	Hauser
Germany 90 (3)		8,8%							Income	Hauser
Greece 82	9,5%	17,4%	27,6%		100	9,5%	17,4%	27,6%	Expend.	DV93a
Greece 88	10,7%	17,9%	26,9%		97	11,9%	19,2%	28,9%	Expend.	DV93a
Ireland 73 (4)	7,5%	15,9%	26,4%						Income	Callan
Ireland 80 (4)	9,3%	17,4%	27,6%						Income	Callan
Ireland 87 (4)	10,5%	21,2%	32,2%						Income	Callan
Netherlands 83	6,5%	9,3%	17,4%	2,7%	100	6,5%	9,3%	17,4%	Income	LIS
Netherlands 87	4,4%	8,3%	15,6%	1,9%	100	4,5%	8,4%	15,8%	Income	LIS
Netherlands 91	3,7%	7,7%	18,1%	1,5%	134	2,2%	3,4%	5,1%	Income	LIS
Norway 79	2,7%	4,8%	13,3%	0,9%	81	4,7%	14,8%	25,8%	Income	LIS
Norway 86	2,1%	6,4%	11,8%	0,8%	100	2,1%	6,4%	11,8%	Income	LIS
Norway 91	2,1%	5,3%	11,2%	0,8%	105	1,9%	4,1%	9,4%	Income	LIS
Portugal 80	16,1%	26,4%	35,8%		100	16,1%	26,4%	35,8%	Expend.	DV93d
Portugal 89	15,5%	24,5%	33,3%		123	9,2%	16,0%	23,5%	Expend.	DV93d
Spain 80	9,7%	17,5%	26,7%		100	9,7%	17,5%	26,7%	Expend.	DV93e
Spain 88	8,2%	15,7%	25,4%		97	5,6%	11,8%	19,8%	Expend.	DV93e
Sweden 75	2,5%	5,2%	11,5%	0,9%	90	3,5%	8,6%	17,0%	Income	LIS
Sweden 81	2,9%	4,6%	8,3%	0,8%	86	3,9%	7,7%	15,4%	Income	LIS
Sweden 87	3,8%	6,3%	10,5%	1,3%	100	3,8%	6,3%	10,5%	Income	LIS
Sweden 92	3,8%	6,0%	10,5%	1,3%	126	2,7%	3,7%	5,4%	Income	LIS

(Continuation. table 6.1)

Country / Year	Persons below line at:			Poverty Index		Persons below line at:			Measure of Resources	Source
	40%	50%	60%	gap (1)	line (2)	40%	50%	60%		
	of average equivalent income in given year					of average equivalent income in reference year*				
UK 74	4,5%	11,4%	19,6%	1,2%	185	0,4%	0,6%	1,4%	Income	LIS
UK 79	4,1%	10,8%	19,5%	1,2%	93	5,5%	13,9%	22,8%	Income	LIS
UK 86	5,9%	13,0%	23,2%	2,3%	100	5,9%	13,0%	23,2%	Income	LIS
UK 85	3,7%	13,2%	24,7%		100	3,7%	13,2%	24,7%	Income	DV93f
UK 88	8,8%	19,0%	28,1%		120	3,5%	10,1%	18,7%	Income	DV93f
UK 78 (5)	1,8%	6,8%	16,4%						Income	Goodman
UK 82 (5)	2,5%	7,8%	18,2%						Income	Goodman
UK 85 (5)	2,7%	10,7%	22,9%						Income	Goodman
UK 88 (5)	7,4%	18,3%	28,1%						Income	Goodman
UK 91 (5)	10,6%	20,4%	29,7%						Income	Goodman

Notes: * Reference year is year where index line is 100.

- (1) Aggregate poverty gap using 50% poverty line, as a percentage of aggregate disposable income
- (2) Real value of line as a percentage of poverty line in year closest to 1985
- (3) These poverty rates for Germany are based on equivalence scale with factors 1.0 for the first adult, 0.8 for other adults and varying from 0.45 for young children to 0.9 for children aged 16 to 21
- (4) Results for Ireland are based on equivalence scale with factors 1.0 - 0.6 - 0.4
- (5) These poverty rates for the UK are based on equivalence scale with factors 0.61 for the first adult, around 0.4 for other adults and varying from 0.09 for young children to 0.36 for children aged 16 or over; income is income before housing costs

Sources: LIS: Luxembourg Income Study

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[Table 6.2]

Table 6.2: Poverty rates and poverty gaps by age of persons, using 50 percent relative poverty line

Country / Year	Poverty rates			Poverty gaps			Source
	All persons	Children	Elderly 65+	All persons	Children	Elderly 65+	
Belgium 85	5,8%	4,7%	11,3%	0,7%	0,5%	1,4%	LIS
Belgium 88	6,2%	4,9%	10,6%	0,7%	0,4%	1,5%	LIS
Belgium 92	5,5%	4,9%	10,6%	0,6%	0,4%	1,4%	LIS
Denmark 87	8,9%	4,0%	25,9%	1,5%	0,4%	2,6%	LIS
Denmark 92	5,5%	3,6%	6,3%	1,1%	0,4%	1,6%	LIS
Finland 87	5,5%	3,4%	10,1%	0,8%	0,3%	1,0%	LIS
Finland 91	6,4%	3,1%	14,4%	0,9%	0,3%	1,4%	LIS
France 79*	13,2%	12,8%	16,0%	1,8%	1,3%	2,0%	LIS
France 84*	11,9%	13,1%	7,3%	1,6%	1,3%	0,8%	LIS
France 84/85	12,4%	12,9%	24,8%				DV94
France 89	14,7%	16,6%	24,3%				DV94
Germany 78	8,2%	4,9%	20,9%	1,1%	0,4%	3,3%	LIS
Germany 83	8,0%	6,5%	18,8%	0,9%	0,5%	2,5%	LIS
Germany 88	10,6%	11,0%	19,4%				DV93a
Greece 82	17,4%	15,9%	33,7%				DV94
Greece 88	17,9%	15,0%	37,8%				DV94
Ireland 73 (1)	14,8%	15,7%	33,8%				Callan
Ireland 80 (1)	16,2%	18,5%	24,4%				Callan
Ireland 87 (1)	19,8%	26,0%	9,7%				Callan
Netherlands 83*	9,3%	7,0%	6,4%	2,7%	1,5%	1,5%	LIS
Netherlands 87*	8,3%	8,9%	2,7%	1,9%	1,1%	0,1%	LIS
Netherlands 91*	7,7%	9,2%	7,2%	1,5%	1,5%	1,0%	LIS

(Continuation, table 6.2)

Country / Year	Poverty rates			Poverty gaps			Source
	All persons	Children	Elderly 65+	All persons	Children	Elderly 65+	
Norway 79*	4.8%	4.4%	6.7%	0.9%	0.5%	1.7%	LIS
Norway 86*	6.4%	3.9%	16.4%	0.8%	0.5%	1.1%	LIS
Norway 91*	5.3%	3.9%	9.5%	0.8%	0.4%	0.6%	LIS
Portugal 80	26.4%	27.9%	42.3%				DV94
Portugal 88	24.5%	22.9%	42.9%				DV94
Spain 80	17.5%	16.9%	32.3%				DV94
Spain 88	15.7%	16.5%	24.7%				DV94
Sweden 75*	5.2%	2.1%	8.6%	0.9%	0.2%	0.6%	LIS
Sweden 81*	4.6%	4.5%	0.9%	0.8%	0.4%	0.0%	LIS
Sweden 87*	6.3%	3.1%	4.3%	1.3%	0.3%	0.3%	LIS
Sweden 92*	6.0%	2.6%	4.9%	1.3%	0.3%	0.5%	LIS
UK 74	11.4%	10.8%	34.4%	1.2%	0.9%	4.2%	LIS
UK 79	10.8%	10.7%	25.9%	1.2%	1.1%	2.0%	LIS
UK 86	13.0%	17.4%	13.3%	2.3%	2.4%	1.2%	LIS
UK 85	13.2%	19.2%	16.7%				DV93b
UK 88	19.0%	22.3%	36.7%				DV93b
UK 73 (2)	9.7%	7.2%	29.6%				Goodman
UK 78 (2)	6.8%	7.6%	10.6%				Goodman
UK 82 (2)	7.8%	9.0%	8.7%				Goodman
UK 85 (2)	10.7%	13.1%	12.7%				Goodman
UK 88 (2)	18.3%	19.3%	31.2%				Goodman
UK 91 (2)	24.0%	26.9%	37.0%				Goodman

(Continuation, table 6.2)

Notes: * Elderly are defined as persons in households where the head is 65 or over; adults - 65 are similarly defined as persons over 16 in households where the head is younger than 65

- (1) Results for Ireland are derived using an equivalence scale with factors 1.0, 0.66 and 0.33.
Figures shown for the elderly are poverty percentages for Households headed by an elderly person.
Figures shown for adults are for ALL adults, regardless of age.
- (2) These poverty rates for the UK are based on equivalence scale with factors 0.61 for the first adult, around 0.4 for other adults and varying from 0.09 for young children to 0.36 for children aged 16 or over; income is income before housing costs

Figures shown for children are poverty percentages for persons living in households with children

Figures shown for the elderly are for pensioners; figures shown for adults are for non-pensioners living in households without

children

For measure of economic resources see table 6.1

Sources: See table 6.1.

[Table 6.3]

Table 6.3: Impact of social security transfers on poverty rates and poverty gaps, by age of persons, using 50 percent relative poverty lines

Country / Year	Poverty rates before and after social transfers				Reduction in poverty gap due to social transfers			
	All persons	Children	Elderly 65+	Adults -65	All persons	Children	Elderly65+ Adults	-65
	before	after	before	after	before	after	before	after
Belgium 85	33.6%	5.8%	24.0%	4.7%	88.9%	11.3%	27.6%	5.2%
Belgium 88	35.1%	6.2%	24.1%	4.9%	86.8%	10.6%	28.7%	5.8%
Belgium 92	34.5%	5.5%	24.4%	4.9%	92.0%	10.6%	26.7%	4.7%
Denmark 87	32.0%	8.9%	20.1%	4.0%	84.5%	25.9%	23.7%	6.5%
Denmark 92	36.6%	5.5%	27.1%	3.6%	83.3%	6.3%	28.3%	5.9%
Finland 87	21.8%	5.5%	17.6%	3.4%	56.6%	10.1%	16.9%	5.4%
Finland 91	23.0%	6.4%	20.7%	3.1%	50.9%	14.4%	18.3%	6.0%
France 79*	35.9%	13.2%	33.3%	12.8%	80.8%	16.0%	25.1%	12.7%
France 84*	38.4%	11.9%	34.9%	13.1%	88.1%	7.3%	28.8%	12.4%
Germany 78	24.5%	8.2%	12.3%	4.9%	73.8%	20.9%	20.3%	7.2%
Germany 83	26.2%	8.0%	15.9%	6.5%	72.2%	18.8%	18.5%	5.8%
Netherlands 83*	33.5%	9.3%	24.0%	7.0%	77.3%	6.4%	28.8%	10.8%
Netherlands 87*	34.3%	8.3%	26.9%	8.9%	77.7%	2.7%	28.4%	9.2%
Netherlands 91*	30.2%	7.7%	22.9%	9.2%	75.8%	7.2%	23.1%	7.3%
Norway 79*	23.2%	4.8%	14.1%	4.4%	78.5%	6.7%	12.8%	4.6%
Norway 86*	22.3%	6.4%	10.5%	3.9%	75.0%	16.4%	11.4%	4.4%
Norway 91*	25.6%	5.3%	16.0%	3.9%	73.6%	9.5%	15.1%	4.5%
Sweden 75*	30.4%	5.2%	15.3%	2.1%	93.9%	8.6%	18.1%	5.5%
Sweden 81*	38.6%	4.6%	23.8%	4.5%	98.2%	0.9%	25.3%	5.9%
Sweden 87*	40.0%	6.3%	22.7%	3.1%	98.2%	4.3%	26.7%	8.1%
Sweden 92*	43.3%	6.0%	29.6%	2.6%	97.1%	4.9%	31.3%	7.6%
UK 74	20.1%	11.4%	15.2%	10.8%	72.0%	34.4%	11.7%	6.8%
UK 79	27.5%	10.8%	23.4%	10.7%	78.5%	25.9%	17.4%	7.2%
UK 86	37.2%	13.0%	37.7%	17.4%	76.7%	13.3%	27.6%	11.0%

Notes: * Elderly are defined as persons in households where the head is 65 or over; adults - 65 are similarly defined as persons over 16

in households where the head is younger than 65

Source: LIS, and own calculations



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